

The Role of Strategic Management Accounting in the Strategic Management Process of Organizations

Ibrahim Yakasai, Aminu ^{Ph.D}

*Department of Accounting, Banking & Finance, Baze University, Abuja, Nigeria
iyaminu@yahoo.com, ibrahim.aminu@bazeuniversity.edu.ng*

ABSTRACT

The paper seeks to identify what entails a strategic management process in organizations with the needed role of strategic management accounting (SMA) to ensure its success. Even though literature on SMA indicates that there is no generally accepted definition of SMA, the paper has provided the five key components/aspects of SMA which are linked to its purpose and scope in playing a key role in the development of a viable strategic management process. These components which embody both internally and externally forward looking perspectives provide the vital strategic oriented information in all the 5 stages of overall strategic management process. The paper which adopted a conceptual approach recommends among others; the full involvement of SMA identified practices suitable to the organizations at all stages of the process. Organizations should also adopt proactive approaches by identifying and providing the crucial categories of SMA in goodtime. The organizations should, further, ensure that a robust information system is in place for loop-back information and integration of data at all times, to ensure monitoring and evaluation of the process and constant review of interpersonal and technical skills of employees involved so that management takes necessary corrective actions as need be. Further empirical research should be directed towards establishing the relationships between the 5 components of SMA as the independent variables and strategic management process as the direct variable.

Key words: Strategic Management Accounting, Strategic Management Process, Environmental Scanning

Introduction

A strategic management process involves mapping out the key steps which lead an organization to achieve its strategic goals. This culminates in selecting the strategies that involve all stakeholders on detailing the implementation plans, appraising progress (success or otherwise) through regular assessment. The strategic management process usually takes the form of a loop of five (5) steps; beginning with goal setting, to analysis, strategy formulation, strategy implementation and strategy evaluation.

The first step involves defining the goals, vision and objectives of the organization by clearly stating these along the short and the long term goals which entails evaluating its resources (staff and materials) a process termed environmental scanning. The second step involves analysis of relevant data to achieve the goals gathered both internally and externally that will form the basis of ensuring the sustainable growth of the organization.

Formulation of the strategy is the next level where after the analysis, a detailed plan of the resources (both available now and those required in future) to achieve the goals are set

making prioritization of relevant issues facing the organization and the time frame for each goal and the expected role to be played at each level by key employees. The next step is to implement the strategy by clearly defining the role and responsibilities each employee is to play in the plan. To ensure the success of implementation, all the funds required should be made available. In the last stage of the process steps, strategy evaluation ensures that the corporate strategy is kept on track by continuous evaluation of set targets and goals so that any identified major errors, wastes and leakages are evaluated with ease and necessary corrective actions, taken.

Thus, the major objective of a strategic management process is to enable an organization to plan ahead through proper approach to achieve its main objective, gain competitive advantage, maintain focus on challenging internal and external factors and ensure core competence in its business dealings. The role strategic management accounting plays in the laid down process can be gainfully assessed as the strategic management process is not likely to yield the expected results either in the first attempt or in a short run due to limitations or challenges it is likely to face. The major limitations come in the form of the time it normally takes to completely tune and manage a process for real benefits to emerge.

Strategic Management Accounting (SMA) is one of the new dimensions developed from traditional management accounting concept designed to specifically provide relevant management accounting information for planning, decision-making and control process in order to achieve organizational strategic management objective that are molded towards competitive advantage and enhancement of organizational performance.

The concept of SMA came into being from the works of Simmonds (1981). Thereafter several studies and a number of developments followed for example Bromwich and Bhimani (1989-1994), Bromwich (1990), Roslender and Hart (2002-2003) Simmonds (1982, 1986) which have all considered SMA as an emerging field from oriented management accounting aimed at enhancing strategic management process of organizations. These works considered SMA as an orientation that adopts greater informational content from both internal and external or outward looking perspectives with special focus on customers, competitors and markets. As a virtual base of internal resources orientation, SMA fortifies organizational capabilities to support external competitive challenges aimed at meeting strategic management objectives.

Even though there seems to be a general belief as to the non-existence of an agreed definition of SMA (Langfield-Smith and Parker (2008), Roslender and Hart (2003) described SMA as the integration of management accounting and marketing management to assist an organization to place itself strategically. Recently, Marlina and Tjahjadi (2020a) defined SMA as “providing and analyzing financial information on products in the market and competitors’ cost structure and monitoring company strategy”.

There is, however, a general agreement as to what SMA constitutes; its purpose and scope. The literature reviewed highlights the conceptual development as well as the empirical research related to implementation and use of SMA practices in the strategic management process of organizations. To this end, SMA practices adopt a more external and forward looking orientation that provide information for the strategic management process on customers, competitors, the market and the environment in general. That provides the platform to create and achieve competitive

advantages and enhances organizational performance. This is certainly in contrast to the conventional management accounting practices which are basically oriented on internal and historical perspective. Based on the foregoing the paper seeks to identify and assess the SMA (components) practices that are of great importance to a systematic strategic management process of an organization and to benchmark on how these could modestly help to achieve its overall strategic objective. The paper, therefore, adopted a conceptual research approach with the key objective of portraying the inspiration of adopting SMA in the strategic management process of organizations by keying-in those SMA components that influence the level of success in attaining the long term objective of organizations' strategic management goals.

Literature Review

Simmonds (1981), defined SMA as “the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy”. Since then, there have been several attempts by academics and practitioners to refine or redefine this definition but there seems to be little agreement within the literature on a single definition of SMA (Pires et al, 2006).

The Chartered Institute of Management Accountants (CIMA 2005) has described SMA as a management accounting process that emphasizes on focusing on information relating to external factors of an entity as well as on non-financial information that is internally generated. This means that the key role and focus of SMA is the provision of information for strategic positioning, which means embracing a broader approach that incorporates internally and externally generated information with an outlook that is dynamic which can effectively enable and enhance the decision –making process by an organization's management. Therefore, SMA

is more of a contemporary approach that is developed with strategic implication based on internally generated management accounting blended with external and market oriented content.

Despite the fact that there is no single, generally accepted definition, there is a consensus that SMA projects to provide management accounting information to support strategic management process within organizations; make significant contribution as to which tools to utilize in a strategic context; and help in the evaluation and control process of the organizations' strategic management roadmap.

Extant literature on SMA shows that several techniques are adopted to make it effective in the strategic management process of organizations (Rashid, Ali and Hossain 2020).

Generally, management accounting is characterized as mainly concerned with “the generation, communication and use of financial and non-financial information for managerial decision making and control activities” (Groot & Selto, 2013). This role encompasses operational and strategic role components. It is the later component that the paper seeks to assess its role as SMA in providing the desired ingredients of an organizational strategic management process.

CIMA (2005), defined SMA as “a form of management accounting in which emphasis is placed on information which relates to factors external to the entity, as well as non-financial information and internally generated information”. The templates that can be drawn from this definition on the non-financial or externally generated information, range on issues related to competitor analysis, markets and customer analysis, value chain and strategic cost management and on a general platform, all issues related to pricing,

investment appraisal and marketing strategies. Developments and studies related to balanced score card, activity-based costing (ABC) and profitability analysis are considered extant tools of SMA to be utilized on providing a modest strategic management process.

Given the foregoing, the following SMA practices/components are, herewith, considered the templates that provide the desired information in the strategic management process and these are the focal points on which the literature is reviewed.

SMA information on customers which is also referred to as customer accounting (CA) is “the most important information source in a people-oriented industry such as the services sector (Cadez, 2006) as cited in Al-Mawali et al (2012)”. CA presents a peculiar set of customer-focused information that covers customer profitability analysis, customer segment profitability analysis and valuation of customers as assets. As a component of SMA, CA provides information on various categories of customers in relation to profitability to the firm, loyalty and also enable the firm match their requirements. The analyses on these factors and consideration of them in the strategic management process of the organization will not only help in keeping hold on to its customer base and maintain performance rate but also wade-off the chances of losing customers to competitors.

Competitor analysis is another SMA information component useful for business strategy. It pays particular attention to the area of analyzing the financial and other resources strengths and weaknesses of competitors as well as estimating the firm’s cost of production compared to the products of competitors. Competitor analysis also considers the issues that aid in meeting customers’ needs better than competitors. Furthermore it involves the process of identifying and researching on the

competitors’ marketing strategies which can be used to make comparison with the firm’s strengths and weaknesses. This is more important where the firm’s sector or industry has competitors who are in the same line of business or produce the same, similar or alternative products.

Competitor analysis enables a firm to examine competitors’ features on market share, pricing and marketing strategies, culture and quality of products in order to improve on the firm’s products, service delivery and also overcome its weaknesses. Thus, competitor analysis can provide the roadmap required to capture and dominate a big market and also set the pace for planning for the future.

Market analysis involves detailed assessment of a firm’s market and the competitive landscape of its industry. This approach leads to the projection of expected achievement, particularly when the desire is to expand market or introduce new products to customers. The analysis of the existing market takes the form of analyzing the dynamics of the market in terms of volume and value of sales, potential customer segments, buying patterns, competition and pricing techniques.

The benefits derivable from this SMA component in the strategic management process include better positioning of the firm’s business in terms of competitiveness and better service to its customers, reduction in general risk concerns and better informed decision making. It can also, be used to identify potential customers and their buying habits, how much customers are willing to pay for new products and full assessment of competitors’ strengths and weaknesses. Thus, a detailed market analysis which emanates from SMA will usually be part of the overall strategic management plans of the firm.

Value chain is the fourth variable component to measure the effectiveness of SMA in the strategic management process of an

organization. It is a progression of activities that a firm operating in a specific industry performs in order to deliver valuable products or services to the end users/customers. Value chain involves a strategic planning process that considers the full lifecycle of a product or process –from material sourcing, to production, to consumption to disposal/recycling process. This means, value chain encompasses planning and designing about the chain that ultimately leads to customer satisfaction.

Therefore, value chain analysis involves evaluating each of the activities in a firm's process to discover where opportunities lie for improvement. It provides prompt analysis on how each step adds or subtracts value from the final product or service. It is a means of improving profits by creating a product or service that is superior to the competitors' products/services, and within the reach that customers are willing to pay. Value chain ultimately, focuses on two prong fronts-it is a low cost provider by focusing on costs and how a firm can reduce those costs but still maintaining quality; and specialization by focusing on activities that create a unique product or difference in the quality of service.

Basic approaches to the study on SMA have laid emphasis on the role, capacities and involvement of the management accountant in the strategic management process (Guildings, 1999; Cravens and Guildings, 2001; Cinguini and Tenucci, 2010) with the belief that such allows adequate management accounting systems with strategic orientation which considers a more specific role; that of the capability of SMA to provide the required input for the process. The former is more a convenient adaptation, if not a necessity of the role of the management accountant plays so long as he/she is the provider of the internally oriented information.

In this regard Cadez and Guilding (2008)'s study paid attention on both internal and external challenges faced by organizations which they referred to as the 'intrinsic and extrinsic aspects' of SMA contribution to the strategic management process. They viewed that as organizations face increased challenges in value-chain maintenance and competition, the SMA role, also comes handy in providing customer and market oriented information which is considered most appropriate to face challenges, promote flexibility, and high quality performance. In this context Chenhall (2008) and Roslender and Hart (2003) examined the contextual role of SMA practices in providing and integrating both financial and non-financial data to the SMA in terms of internal human and material resources, markets, competitors and customers for adaption in modelling the corporate strategy.

Nixon and Burns (2012) espoused the need for SMA contribution to strategic management process by providing detailed internal resources and organizational capabilities which they termed 'intellectual capital' to support the externally based information (i.e. markets, competitors, customers and value chain). They believe this aspect is immutable and necessary ingredient to support organizational strategy. In this regard Cuganesan et al. (2012) opined that it is in this way that SMA takes active roles in rethinking strategies and developing new forms of management accounting practices to buttress the corporate objective.

The studies by Cadez and Guildings (2007, 2008) based the contribution of SMA to the strategic management process with focus on providing information classified into 5 segments as costing, planning, control and performance measurement, strategic decision making, competitor accounting and customer accounting. According to the authors these

aspects provide the basic practices needed in a SMA practice. And by extension these agree with the four components espoused in the preceding paragraphs by the author. While Cadez and Guilding (2007, 2008) excluded activity-based costing, on the other hand, Cinquini and Tenucci (2010) found that this new brand of management accounting practice, though a new development, could provide more impetus to corporate strategic process as an aspect that considers 'brand value budgeting' and 'brand value monitoring'.

The studies by Cadez and Guilding (2007, 2008) were replicated and further additions of SMA practices that cover customer profitability analysis and customer segment profitability analysis were conducted by Guilding and McManus (2012). This category of information is also termed as competitor appraisal based in financial statements. In order to have a more complete SMA practice that supports the corporate strategic management process, Cinguini and Tenucci (2010) further established that, value chain-costing, benchmarking, Target Costing, integrated performance measurement and quality costing, need to be properly analyzed and incorporated in SMA practices, because these resources and capacities are competitive advantage enhancers which are now the focus of strategic management.

A further dimension to the composition of the SMA practices was demonstrated by Atkinson et al. (2012) and Horngren et al. (2012) who found that investment analysis is an important area of management accounting that significantly boosts the strategic management process in that alternative and project financing (investment portfolio) enhances the determination and allocation of funds required to achieve a successful corporate strategy, evaluating and selection of among strategic projects that can add quality, efficiency,

service delivery and overall competitive position of the organization with resultant tremendous benefits.

Methodology

The research design adopted for the paper is conceptual based on a library research and in depth review of relevant and related literature on the topic. This has provided access to relevant, useful and reliable authority on SMA.

Summary and Conclusion

There are a number of categories in which the analyzed components of SMA can be employed to play a significant role in the overall strategic management process of organizations. The first category relates to the costing aspect which comprises of costing attributes in determining, analyzing and managing strategic costs. These entail providing essential management accounting data relative to attribute costing, value chain costing and target costing which are essential for planning since they have greater external orientation. For example, target costing presents forward looking orientation basically necessary for planning ahead. Both attribute costing and value chain costing which embody life cycle costing and quality costing attributes are necessary for the development of strategies that are focused on the quality of management and life cycle of products or services produced.

The second category of the major role of SMA practices relates to planning, control and performance management which is the key component of corporate strategy. The hallmark is on the identification of the best practices used by major competitors against that of the organization in order to enhance organizational performance. Under the planning and control aspect, integrated performance measurement considers both financial and non-financial material indicators in relation to internal and external (competitors) perspectives in order to draw a comprehensively reviewed integrated

performance measurement score sheet. The balanced score card will now present a blue print for development implementation and control strategy with potential for identifying and managing the available intellectual capital and note for where and how to make up any shortfall identified.

The third category or essential role of SMA in providing the desired input in corporate strategic management process is the strategic decision-making aspect which comprises 3 key areas of the management accounting information provision to do with strategic costing (strategic cost analysis – that creates and achieves competitive advantage) pricing decision (models and strategies adopted to fix prices of goods/services against competitors' benchmarks), and brand valuation (the angle that manages product rating, marketing, advertisement and maintenance of quality – value of brands).

The next (fourth) category/aspect of SMA's role is to do with competitor accounting – an expect that assumes an external orientation to do with focus on competitors. This relates to publicly made information provided by competitors through press releases, annual reports and accounts, research grants/contracts with institutions (R&D) exposes on conferences organized to develop competitive strategies and overall monitoring and documenting and releases by competitors. The SMA role here is more of a research undertaking providing comparable data, making analysis and projecting on possible outcomes.

Lastly, the fifth category of SMA practices that aid in the strategic management process is customer accounting. This employs the aspect of providing analysis on key customer details all with external orientation. It refers to the relevance of customers within the context of the organization by showing customer

profitability analysis in terms of segments (categorizing customers by segments of the market). Then, assessing profitability by segment to segment; and by valuation of customer's assets/life time valuation in terms of length in patronage or loyalty. All these give the basis to assess the present value of all future earnings/income stream from each particular segment of customers. In the end, the strategy that emanates from this aspect allows sustaining and developing customer relationships, improving and developing decision-making related with product development marketing, pricing and management of resources related to the customers.

The foregoing areas/aspects are generally considered to be the SMA practices that play significant role in the overall corporate strategic management process of organizations. However, studies by Cinquini and Tenucci (2010) and Shah et al (2011) have considered the inclusion of Activity based Costing as an aspect which may not have much external orientation because its main objective is to compute the product and service cost more accurately (more of internal and historical information). Furthermore, some authors (Roslender and Hart (2010); Carr, Olehmainen and Mitchell (2010) in particular, have gone to include strategic investment analysis which involves the process of identifying, evaluating and selecting among strategic projects that may improve the overall performance of the organizations, as another aspect of SMA.

In summary, therefore, the paper has attempted to outline of the role of SMA components in the overall strategic management process of organizations. The key elements relate to the provision of internally and externally oriented management accounting information as depicted in the four components (customer analysis, competitor analysis, market analysis

and value chain analysis). In conclusion, even though literature on the topic does not provide a single generally accepted definition of SMA, however, its scope and role in adding impetus to the overall strategic management process of organizations, is in no doubt. For this reason, SMA can be considered as providing: Outward-looking oriented information and thus a forward looking perspective. Detailed internal resource and organizational capacities to form the benchmark for decision making. A typology of both financial and non-financial measurement criteria for developing a robust corporate strategy. They key aspect of the SMA role is to integrate the necessary components peculiar to the organization giving regards to its potentials and overall strategic objectives.

Recommendations

The major success of a viable corporate strategic management process involves specific identification of corporate objectives goals and vision/mission. Once this is set, the involvement of the management accounting team or specifically persons identified to be involved in composing the SMA. This involves a proactive approach by providing and identifying with the crucial categories of SMA components to be made available in good time. Invariably the degree of success depends on availability of a concise blueprint to the SMA team.

Next, it is necessary to install a robust information system capable of producing key performance data with personnel dedicated to handle strategic issues. This will enable the organization to focus on improving data gathering and reporting systems that will free up time and resources. The team that is involved in monitoring and evaluating the process should be abreast of time schedule and development in the sequence of the required information/data for continuous assessment

and updating management on progress recorded.

There is, also, the need to continue reviewing interpersonal and technical skills of all the employees involved in the process so that significant contributions can be noted for reward/enhancement of new innovative ideas noted for incorporation in the master plan. As the score sheet card is updated, progress reports at every successful stage should be made available to management for review and update to the board of directors to ensure that the strategic process remains course.

References

- Al-Mawali, H. Zainuddin Y. & Ali, N. N. K. (2012) "Customer Accounting Information Usage and Organizational Performance". Business Strategies Series.
- Bromwich, M. (1990). "The Case for Strategic Management Accounting: The Role of Accounting Information for Strategy in Competitive Markets." *Accounting Organizations and Society* vol. 15, pp 27-46
- Bromwich, M. and Bhimani, A. (1989), "Management Accounting: Evolution not Revolution". *The Chartered Institute of Management Accountants, London.*
- Bromwich, M. and Bhimani, A. (1994). "Management Accountants, Pathways to Progress". *The Institute of Chartered Management Accountants, London.*
- CIMA (2005). "Official Terminology" *CIMA Publishing, London.*
- Cinquini, L and Tenucci, A. (2010). "Strategic Management Accounting and Business Strategy: A Loose Coupling". *Journal*

- of Accounting and Organizational Change* Vol.6 pp. 228-259.
- Groot, T. and Selto, F. (2013). "Advanced Management Accounting". *Harlow Pearson* pp 3.
- Langfield-Smith, K. (2008). "Strategic Management Accounting: How far have we come in 25 Years?" *Accounting, Auditing and Accountability Journal* No.21 pp. 204-224.
- Ojra, J. Opute, A. P. & Alsomi, K. (2021). "Strategic Management Accounting and Performance Implications: A Literature Review and Research Agenda" *Future Business Journal*.
- Pires, R. A., Alves, M. G. and Rodrigues, L. L. (2006), "Strategic Management Accounting: Definitions and Dimensions". *Institute Polytechnic of Bragansca*
- Roslender, R. and Hart, S. J. (2002) "Integrating Management Accounting and Marketing in the Pursuit of Competitive Advantage: The Case for Strategic Management Accounting". *Critical Perspective on Accounting* 13, 255-277.
- Roslender, R. and Hart, S. J. (2003). "In Search of SMA: Theoretical and Field Perspectives". *Management Accounting Research*, 14, 255-277.
- Shah, H., Malik, A., and Malik, M. S. (2011). "Strategic Management Accounting: A Messiah for Management Accounting?" *Australian Journal of Business and Management Research* Vol. 1 pp. 1-7.
- Simmonds, K. (1981). 'Strategic Management Accounting'. *Management Accounting, U.K.* Vol 59 pp 26-30.
- Simmonds, K. (1982). "Strategic Management Accounting for Pricing: A Case Example". *Accounting and Business Research* 47, 206-214.
- Simmonds, K. (1986). "The Accounting Assessment of Competitive Position". *European Journal of Marketing* 22, 16-31.